
GRANT NUMBER E2660 -MW

Financing Agreement

(De-risking Importation of Strategic Commodities Project)

between

REPUBLIC OF MALAWI

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

FINANCING AGREEMENT

AGREEMENT dated as of the Signature Date between REPUBLIC OF MALAWI (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”). The Recipient and the Association hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) apply to and form part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II — FINANCING

- 2.01. The Association agrees to extend to the Recipient a grant, which is deemed as Concessional Financing for purposes of the General Conditions, in an amount equivalent to forty-five million seven hundred thousand Special Drawing Rights (SDR 45,700,000 (“Financing”), to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section III of Schedule 2 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate is one-half of one percent (1/2 of 1%) per annum on the Unwithdrawn Financing Balance.
- 2.04. The Payment Dates are June 15 and December 15 in each year.
- 2.05. The Payment Currency is Dollar.

ARTICLE III — PROJECT

- 3.01. The Recipient declares its commitment to the objective of the Project. To this end, the Recipient shall carry out the Project in accordance with the provisions of Article V of the General Conditions Schedule 2 to this Agreement and the Project Agreement.

ARTICLE IV — REMEDIES OF THE ASSOCIATION

- 4.01. The Additional Events of Suspension consist of the following, namely, that the Reserve Bank of Malawi Act, Chapter 44:02 has been amended, suspended, abrogated, repealed, or waived so as to affect materially and adversely the ability

of the Project Implementing Entity to perform any of its obligations under this Project.

- 4.02. The Additional Events of Acceleration consists of the following, namely, that the event specified in Section 4.01 of this Agreement occurs and is continuing for a period of sixty (60) days after notice of the event has been given by the Association to the Recipient.

ARTICLE V— EFFECTIVENESS; TERMINATION

- 5.01. The Additional Conditions of Effectiveness consists of the following, the Recipient shall ensure that the Project Implementing Entity:
- (a) updates its existing Environmental and Social Management System to include project specific requirements and procedures and thereafter disclose it, all in a manner satisfactory to the Association; and
 - (b) prepares a Project Operation Manual in form and substance satisfactory to the Association.
- 5.02. The Effectiveness Deadline is ninety (90) days after the Signature Date.
- 5.03. For purposes of Section 10.05 (b) of the General Conditions, the date on which the obligations of the Recipient under this Agreement (other than those providing for payment obligations) shall terminate is twenty (20) years after the Signature Date.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

- 6.01. The Recipient's Representative is its minister responsible for finance.
- 6.02. For purposes of Section 11.01 of the General Conditions:

- (a) the Recipient's address is:

Ministry of Finance and Economic Affairs
P.O. Box 30049
Capital City
Lilongwe 3, Malawi

- (b) the Recipient's Electronic Address is:

Cable address:	Facsimile:
FINANCE Lilongwe	265-1-789173

6.03. For purposes of Section 11.01 of the General Conditions:

(a) the Association's address is:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America; and

(b) the Association's Electronic Address is:

Telex:	Facsimile:
248423 (MCI)	1-202-477-6391

AGREED as of the Signature Date.

REPUBLIC OF MALAWI

By



Authorized Representative

Name: H.E. Simplex Chithyola Banda, M.P.

Title: Minister

Date: 29-Nov-2023

INTERNATIONAL DEVELOPMENT ASSOCIATION

By



Authorized Representative

Name: Hugh Riddell

Title: Country Manager

Date: 28-Nov-2023

SCHEDULE 1

Project Description

The objective of the Project is to increase supply of trade finance for importation of Essential Commodities to the Recipient's territory.

The Project consists of the following part:

Establishing a Trade Finance Facility for the purpose of de-risking importation of Essential Commodities such as fertilizers and pharmaceuticals, by providing contingent financing to Confirming Banks to backstop or guarantee the payment obligations of the Participating Financial Institutions (PFIs) to the Confirming Banks in case the PFIs default on their payment obligations to the Confirming Banks.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

Project Implementing Entity

1. The Recipient shall: (a) designate the Project Implementing Entity with the overall responsibility for implementing the Project; and ensure that the Project Implementing Entity is supported by the FINES PIU; and (b) not later than 6 months after the Effective Date, recruit or assign an environmental and social specialist and a finance specialist with adequate resources, with skills, experience and under terms of reference acceptable to the Association.
2. Without limitation to the provisions of paragraph 1 above, the Recipient shall ensure that the Project Implementing Entity: (a) verifies the eligibility of the PFIs to participate in the Project as set forth in the Verification Protocol and the POM; (b) prepares environmental and social management instruments; (c) compiles and submits to the Recipient and the Association documentation confirming default on payment of Letters of Credit or occurrence of Eligible Events in cases when they occur; (d) reports on all the trade finance transactions supported by the Project; and (e) takes appropriate actions against the defaulting PFIs.
3. The Recipient shall ensure that the Project Implementing Entity meets the costs incurred in connection with the implementation of the Project.

B. Project Operations Manual

1. Without limitation to the provisions of Article V of the General Conditions, the Recipient shall cause the Project Implementing Entity to implement the Project in accordance with the Project Operations Manual ("POM").
2. Except as the Association shall otherwise agree in writing, the Recipient shall ensure that the Project Implementing Entity does not, amend, waive, suspend or abrogate any provision of the POM and in case of any inconsistency between the provisions of the POM and those of this Agreement, the provisions of this Agreement shall prevail.

C. Operation of the Trade Financing Facility and use of the Grant Proceeds

1. Upon a PFI's notification to the Recipient and the Project Implementing Entity of its issuance of a Letter of Credit (Eligible Instrument) to the Correspondent Bank in connection with the importation of Essential Commodities, the Recipient shall cause the Project Implementing Entity to: (a) verify the eligibility of the transaction, the environmental systems of the PFI and Confirming Bank to ensure they have updated their systems to include trade finance transaction and their operationalization in accordance with the Verification Protocol and that the Confirming Bank has adequate staff to implement the ESMS, with skills and experience satisfactory to the Association; (b) enter on behalf of the Recipient, into the following agreements: (i) a PFI Agreement with each PFI, to outline the obligations of the parties in connection with the importation of the Essential Commodities, the Guaranteed Amount to be made to the Confirming Bank in the event the PFI defaults on its payment obligations to the Confirming Bank; and, (ii) a Confirming Bank Agreement with each Confirming Bank to guarantee payment of the Guaranteed Amount.
2. In the event, of occurrence of an Eligible Event or a selected PFIs failure to meet its payment obligations to the Confirming Bank as shown in the Notice of Unpaid Claim, the Recipient shall ensure that the Project Implementing Entity verifies the default in accordance with the Verification Protocol, and there after issues a letter to the Recipient and the Association confirming that the Eligible Event has occurred prior to the Closing Date, accompanied by: (a) a copy of the original Letter of Credit that was issued; (b) a copy of the Notice of Unpaid Claim; and (c) instructions to the Recipient and the Association that a payment of the Guaranteed Amount be made to the Correspondent Bank.
3. The Recipient shall cause the Project Implementing Entity to conduct its operations and affairs in accordance with consistently applied financial standards and practices acceptable to the Association; to reflect the Project Implementing Entity's operation and financial condition.

D. Performance Standards

1. The Recipient shall cause the Project Implementing Entity to carry out the Project in accordance with the Performance Standards, the ESMS, the Exclusion List, and the ESAP, all in a manner acceptable to the Association.
2. Without limitation upon paragraph 1, the Recipient shall cause the Project Implementing Entity to ensure that:
 - (a) adequate resources are made available to ensure that the implementation of the ESMS is continued and effective and that the ESMS is operated, and

the social and environmental performance of the Project is managed in a manner consistent with the Performance Standards;

- (b) qualified and experienced staff in adequate numbers are retained to implement the ESMS;
 - (c) No later than thirty (30) days after the end of each calendar semester, covering the calendar semester, an environmental and social performance report shall be furnished to the Association, providing information on the status of compliance with the ESMS, all such reports in form and substance acceptable to the Association, setting out, *inter alia*: (i) compliance with the Performance Standards and the Exclusion List; (ii) the status of implementation of the ESMS; (iii) conditions, if any, which interfere or threaten to interfere with the implementation of the ESMS; (iii) corrective and preventive measures taken or required to be taken to address such conditions; (iv) details of Project-related complaints, and setting out the action being taken to ensure compliance and/or address Project-related complaints; and
 - (d) the Association is promptly notified of any incident or accident related to or having an impact on the Project which has, or is likely to have, a significant adverse effect on the environment, the affected communities, the public or workers, including, *inter alia*, cases of sexual exploitation and abuse, sexual harassment, fatalities or serious workplace related injuries, child labor, forced labor, as set out in the ESAP.
3. No later than thirty (30) days after the Effective Date, the Recipient shall cause the Project Implementing Entity to establish, publicize, maintain and operate an accessible grievance mechanism, to receive and facilitate resolution of concerns and grievances of Project-affected people, and take all measures necessary and appropriate to resolve, or facilitate the resolution of, such concerns and grievances, in a manner acceptable to the Association.
4. In case of any inconsistencies between the ESMS and the provisions of this Agreement, the provisions of this Agreement shall prevail.

E. Verification Protocol

1. The Recipient shall:
- (a) ensure that the Project Implementing Entity prepares and provides verification reports with relevant data and any other evidence for: (i) monitoring and evaluation of the Eligible Events in case they occur; and (ii) verifying that the PFIs and Confirming Bank have met their eligibility requirements in accordance with the Verification Protocol; and

- (b) verify the results of the Project Implementing Entity regarding the occurrence of Eligible Events prior to advising the Association to disburse the Guaranteed Amounts to eligible Correspondent Banks.

Section II. Project Monitoring, Reporting and Evaluation

The Recipient shall ensure that the Project Implementing Entity prepares and furnishes to the Association each Project Report not later than one (1) month after the end of each calendar semester, covering the calendar semester.

Section III. Withdrawal of the Proceeds of the Financing

A. General

Without limitation upon the provisions of Article II of the General Conditions and in accordance with the Disbursement and Financial Information Letter, the Recipient may withdraw the proceeds of the Financing to finance Eligible Expenditures in the amount allocated and, if applicable, up to the percentage set forth against each Category of the following table:

Category	Amount of the Grant Allocated (expressed in SDR)	Percentage of Expenditures to be Financed. (inclusive of Taxes)
(1) Eligible Payments from the Trade Finance Facility	45,700,000	
TOTAL AMOUNT	45,700,000	

B. Withdrawal Conditions; Withdrawal Period

- 1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made:
 - (a) for payments made prior to the Signature Date.
 - (b) under Category (1) to pay the Guaranteed Amount, unless and until the Recipient through the Project Implementing Entity has provided evidence satisfactory to the Association in accordance with the Verification Protocol that an Eligible Event has occurred or a PFI has defaulted on its payment obligations to a Correspondent Bank for a continuous period of fifteen (15) days from the date the payments were due.

2. Except as the Recipient and the Association may otherwise agree, the Recipient may request withdrawal(s) associated with a Letter of Credit or an Eligible Event described under Section III.B.1 (b) of Schedule 2 to this Agreement, for a cumulative amount not exceeding the Guaranteed Amount.
3. If the Association determines at any time that the Grant proceeds were not used for payments supported by the evidence provided by the Correspondent Bank through the Project Implementing Entity, in accordance with the Verification Protocol, the Recipient shall request the Project Implementing Entity to obtain additional evidence from the Correspondent Bank, or, if the Association shall so request, the Recipient shall ensure that Correspondent Bank refunds the Association an amount equal to the amount of such payment. Unless the Association agrees, no further withdrawal shall be made to the Correspondent Bank, until the Correspondent Bank has provided such evidence or made such a refund as the case may be.
4. Refunds to the Association made pursuant to paragraph 3 above shall be credited to Category 1 for subsequent withdrawal or for cancellation in accordance with the provisions of this Agreement.
5. The Closing Date is June 30, 2026.

APPENDIX

Section I. Definitions

1. “Anti-Corruption Guidelines” means, for purposes of paragraph 5 of the Appendix to the General Conditions, the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006, and revised in January 2011 and as of July 1, 2016.
2. “Banking Act” means the Recipient’s Banking Act Cap. 44:01 and any subsidiary legislation issued pursuant to this Act (both as amended from time to time).
3. “Banking Laws” means the Banking Act, and the Financial Services Act.
4. “Category” means a category set forth in the table in Section III.A of Schedule 2 to this Agreement.
5. “Confirming Bank” means a bank that meets the criteria in the POM including advising and confirming Letters of Credit from the PFIs for Essential Commodities and effecting payment to the exporters of Essential Commodities under the Project.
6. “Confirming Bank Agreement” means the agreement referred to in Section I.C.1 (b) of Schedule 2 to the Agreement, as said agreement may be amended from time to time.
7. “Eligible Event” means the occurrence of the withdrawal condition set forth in Section III.B.1(b) of Schedule 2 to this Agreement.
8. “Eligible Instruments” means Letter of Credit, advance payment guarantees trade-related promissory notes and bills of exchange, bid and performance bonds, advance payment guarantees, supplier credits for the import of capital goods.
9. “Eligible Payment from the Trade Finance Facility” means a payment obligation made by the Association on behalf of the Recipient on the Guaranteed Amount.
10. “Environmental and Social Action Plan” or “ESAP” means the plan, dated October 30, 2023, detailing actions to be carried out or caused to be carried out by the Recipient, as the case may be, in accordance with the Performance Standards; as such plan may be amended from time to time with prior written agreement of the Association.
11. “Environmental and Social Management System” or “ESMS” is a system for identifying, assessing, managing, and monitoring of the environmental and social risks and impacts of for the PFIs and Commitment Banks on an ongoing basis.

12. “Essential Commodities” means fertilizer, pharmaceuticals and potentially other strategic goods selected by the Recipient with the Association’s prior written approval.
13. “Exclusion List” means the excluded situations, conditions and activities outlined in the ESAP, the Project Operations Manual and the Annex to this Agreement.
14. “Financial Services Act means the Recipient’s Financial Services Act, Cap. 44:05 and all relevant directives issued pursuant to the Act (both as amended from time to time).
15. “FINES PIU” means the Project Implementation Unit responsible for implementing the Recipient’s Association financed Project, namely the *Financial Inclusion and Entrepreneurship Project, Credit No.6746-MW*,
16. “General Conditions” means the “International Development Association General Conditions for IDA Financing, Investment Project Financing”, dated December 14, 2018 (Last revised on July 15, 2023).
17. “Guaranteed Amount” means the amount agreed to be paid by the Project Implementing Entity on behalf of the Recipient in case a PFI defaults in paying for a Letter of Credit or an Eligible Event occurs.
18. “Letter of Credit” means a letter from a bank guaranteeing that a buyer’s payment will be received on time and for the correct amount.
19. “Participating Financial Institutions” means local commercial banks registered in the Recipient’s territory and any other financial institutions approved by the Recipient to participate in the Project with the Association’s prior written concurrence.
20. “PFI Agreement” means the agreement referred to in Section I.C.1 (a) of Schedule 2 to the Agreement, as said agreement may be amended from time to time.
21. “Project Operations Manual” means the manual prepared by the Project Implementing Entity, satisfactory to the Association and referred to in Section I.B of Schedule 2 to the Financing Agreement, as the same may be amended from time to time with the Association’s prior written concurrence.
22. “Notice of Unpaid Claim” means the notice submitted by the Correspondent Bank consistent with the Verification Protocol, informing the Recipient and the Project Implementing Entity of the IPFs failure to pay, when due, any amounts to the Confirming Bank guaranteed by the Project Implementing Entity in respect of an Eligible Instrument or Letter of Credit in connection with the purchase of Essential Goods.

23. “Project Implementing Entity” means the Reserve Bank of Malawi.
24. “Reserve Bank of Malawi” means the centra bank of Malawi established and operating pursuant to the Reserve Bank of Malawi Act, Chapter 44:02 or its successor.
25. “Signature Date” means the later of the two dates on which the Recipient and the Association signed this Agreement and such definition applies to all references to “the date of the Financing Agreement” in the General Conditions.
26. “Trade Finance Facility” means the facility established by the Recipient to pay the Guaranteed Amount to the Correspondent Banks in case the PFIs default on paying for the Lines of Credit or any other Eligible Instrument in connection with the importation of Essential Commodities.
27. “Verification Protocol” means the protocol for verification of occurrence of Eligible Events, determination of the eligibility of the PFIs and Correspondent Banks and use of Grant proceeds set forth in the POM.

EXCLUSION LIST

This Project, a trade finance operation does not finance the following:

- Production or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements, or subject to international bans, such as pharmaceuticals, pesticides/herbicides, ozone depleting substances, PCB's, wildlife or products regulated under CITES.
- Production or trade in weapons and munitions.¹
- Production or trade in alcoholic beverages (excluding beer and wine).¹
- Production or trade in tobacco.¹
- Gambling, casinos and equivalent enterprises.¹
- Production or trade in radioactive materials. This does not apply to the purchase of medical equipment, quality control (measurement) equipment and any equipment where the Association considers the radioactive source to be trivial and/or adequately shielded.
- Production or trade in unbonded asbestos fibers. This does not apply to purchase and use of bonded asbestos cement sheeting where the asbestos content is less than 20%.
- Drift net fishing in the marine environment using nets in excess of 2.5 km. in length.

A reasonableness test will be applied when the activities of the project company² would have a significant development impact but circumstances of the country require adjustment to the Exclusion List.

All financial intermediaries (FIs), except those engaged in activities specified below*, must apply the following exclusions, in addition to Exclusion List:

- Production or activities involving harmful or exploitative forms of forced labor³/harmful child labor.⁴
- Commercial logging operations for use in primary tropical moist forest.

¹ This does not apply to project sponsors who are not substantially involved in these activities. "Not substantially involved" means that the activity concerned is ancillary to a project sponsor's primary operations.

² Project Company in this case refers to the Trade Finance.

³ Forced labor means all work or service, not voluntarily performed, that is extracted from an individual under threat of force or penalty.

⁴ Harmful child labor means the employment of children that is economically exploitive, or is likely to be hazardous to, or to interfere with, the child's education, or to be harmful to the child's health, or physical, mental, spiritual, moral, or social development.

- Production or trade in wood or other forestry products other than from sustainably managed forests.

When investing in **microfinance** activities, FIs will apply the following items in addition to the Exclusion List:

- Production or activities involving harmful or exploitative forms of forced labor²/harmful child labor.³
- Production, trade, storage, or transport of significant volumes of hazardous chemicals, or commercial scale usage of hazardous chemicals. Hazardous chemicals include gasoline, kerosene, and other petroleum products.
- Production or activities that impinge on the lands owned, or claimed under adjudication, by Indigenous Peoples, without full documented consent of such peoples.

Trade finance projects, given the nature of the transactions, FIs will apply the following items in addition to the Exclusion List:

- Production or activities involving harmful or exploitative forms of forced labor²/harmful child labor.³